

TOWNSHIP OF SHERMAN  
ST. JOSEPH COUNTY, MICHIGAN

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

March 31, 2005

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>SHERMAN TOWNSHIP</b>	County <b>ST JOSEPH</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>9/7/05</b>	Date Accountant Report Submitted to State: <b>12/9/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

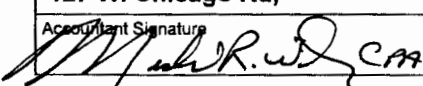
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Norman &amp; Paulsen, P.C.</b>			
Street Address <b>127 W. Chicago Rd,</b>	City <b>Sturgis</b>	State <b>MI</b>	ZIP <b>49091</b>
Accountant Signature  <b>Michael R. Wilson</b>		Date <b>12/9/05</b>	

## **TOWNSHIP OF SHERMAN, MICHIGAN**

### **MANAGEMENT' S DISCUSSION AND ANALYSIS**

#### **General Fund Budgetary Highlights**

As shown in the required supplemental information, the Township budgeted a breakeven position in the original budget and a decrease of \$4,400 in the amended budget. Actual operating results ended up as a decrease of \$11,811.

The original budget was amended to reflect an increase in projected revenues of \$18,000. Actual results ended the fiscal year within \$11,515 of the amended budget.

The original budget was amended to reflect an increase in projected expenditures of \$22,400. Actual results ended the fiscal year within \$18,926 of the amended budget.

#### **Capital Assets and Debt Administration**

During the year ended March 31, 2005, the total capital assets of the Township increased by \$25,825 which was for the Township Hall renovation project and was funded internally.

The Township has no debt obligations.

#### **Contacting the Township' s Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Treasurer's office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWNSHIP OF SHERMAN, MICHIGAN

STATEMENT OF NET ASSETS  
MARCH 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 472,683
Receivables - net	41,954
Prepaid expenses	<u>4,960</u>
Total current assets	519,597
Noncurrent Assets:	
Receivables - net	-
Capital assets, net of accumulated depreciation	<u>209,745</u>
Total noncurrent assets	<u>209,745</u>
Total assets	729,342
LIABILITIES	
Current Liabilities:	
Accounts payable	<u>10,309</u>
NET ASSETS	
Invested in capital assets	209,745
Unrestricted	<u>509,288</u>
Total net assets	<u>\$ 719,033</u>

See accompanying notes to financial statements

**TOWNSHIP OF SHERMAN, MICHIGAN**

**STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2005**

	<u>Program Revenues</u>			Net (Expense) Revenues and Changes in Net Assets
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
General government	\$ 151,364	\$ 5,823	\$ -	\$ (145,541)
Public safety	43,147	310	-	(42,837)
Public works	29,006	-	6,826	(22,180)
Community development	<u>56,614</u>	<u>4,000</u>	<u>-</u>	<u>(52,614)</u>
Total governmental activities	<u>\$ 280,131</u>	<u>\$ 10,133</u>	<u>\$ 6,826</u>	(263,172)
General revenues:				
Property taxes				47,963
State shared revenues				219,874
Investment earnings				6,470
Other				<u>249</u>
Total general revenues				<u>274,556</u>
CHANGE IN NET ASSETS				11,384
NET ASSETS - BEGINNING				<u>707,649</u>
NET ASSETS - ENDING				<u>\$ 719,033</u>

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

TOWNSHIP OF SHERMAN, MICHIGAN

GOVERNMENTAL FUNDS  
BALANCE SHEET  
MARCH 31, 2005

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 472,683
Receivables	69,680
Prepaid expenditures	<u>4,960</u>
Total assets	<u>\$ 547,323</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 10,309
Deferred revenue	<u>27,726</u>
Total liabilities	38,035
FUND BALANCE	
Designated for:	
Public improvements	8,073
Road improvements	107,805
Fire protection	115,900
Unreserved, undesignated	<u>277,510</u>
Total fund balances	<u>509,288</u>
Total liabilities and fund balance	<u>\$ 547,323</u>

See accompanying notes to the financial statements



TOWNSHIP OF SHERMAN, MICHIGAN

GOVERNMENTAL FUNDS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
MARCH 31, 2005

Total governmental fund balances \$ 509,288

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities  
are not financial resources and therefore are  
not reported in the funds.

Governmental capital assets	\$ 213,375	
Less accumulated depreciation	<u>(3,630)</u>	209,745

Other long-term receivables are not available  
to pay for current period expenditures and,  
therefore, are deferred in the funds 27,726

Other long-term receivables we reported net of  
an allowance for uncollectibles in the statement  
of net assets (27,726)

Net assets of governmental activities \$ 719,033

See accompanying notes to financial statements

TOWNSHIP OF SHERMAN, MICHIGAN

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
YEAR ENDED MARCH 31, 2005

	<u>General Fund</u>
REVENUES	
Taxes and penalties	\$ 47,963
State grants	224,698
Charges for services	10,133
Interest	6,470
Other	<u>2,251</u>
Total revenues	291,515
EXPENDITURES	
General government	148,734
Public safety	43,147
Public works	29,006
Community development	56,614
Capital outlay	<u>25,825</u>
Total expenditures	<u>303,326</u>
Excess (deficiency) of revenues over expenditures	( 11,811)
FUND BALANCE - Beginning of year	<u>521,099</u>
FUND BALANCE - End of year	<u>\$ 509,288</u>

See accompanying notes to financial statements

TOWNSHIP OF SHERMAN, MICHIGAN

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2005

Net change in fund balances - total governmental funds \$ (11,811)

Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those  
assets is depreciated over their estimated useful lives.

Expenditures for capital assets	25,825
Depreciation expense	<u>(2,630)</u>

Change in net assets of governmental activities	<u>\$ 11,384</u>
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See accompanying notes to financial statements

TOWNSHIP OF SHERMAN, MICHIGAN

FIDUCIARY FUNDS  
BALANCE SHEET  
MARCH 31, 2005

ASSETS

Cash

Agency  
Funds  
\$ 1,097

LIABILITIES

Undistributed tax collections

\$ 1,097

See accompanying notes to financial statements

TOWNSHIP OF SHERMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Sherman conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to townships. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies establishing GAAP and used by the Township are discussed below.

The Township adopted GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* as of April 1, 2004. Certain of the significant changes in GASB 34 include the following:

- \* A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operation has been included with the financial statements.
- \* Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.
- \* Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$186,550 previously reported in the General Fixed Asset Account Group. In addition, the governmental activities column includes debt obligations totaling \$-0- previously reported in the General Long-Term Debt Account Group.
- \* A change in the fund financial statements to focus on major funds.

The Township also adopted GASB 38, *Certain Financial Statement Note Disclosures*, as of April 1, 2004. GASB 38 modifies note disclosures required by GAAP. The adoption of this change in accounting principles had no effect on the financial condition or result of operations of any of the Township's funds as of and for the year ended March 31, 2005, but did change some of the disclosures required for the notes to the financial statements.

**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Reporting Entity**

Sherman Township is located in St. Joseph County, Michigan, and provides services to approximately 3,248 residents in many areas including public safety, highways and streets, general administrative services, fire protection, and community enrichment and development. The Township is a general law township, and is governed by a 5-member board elected by the citizens of Sherman Township. The board consists of the supervisor, clerk, treasurer, and two trustees whom reside in the community.

As required by generally accepted accounting principles, GASB 14, these financial statements present the Township (the primary government) and its component units, entities for which the Township is considered to be financially accountable. There are no component units to be included in these financial statements.

**Basis of Accounting - Government-Wide Financial Statements** - The statement of net assets and the statement of activities display information about the Township as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Township and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Township.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

**Basis of Accounting - Fund Financial Statements** - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- \* Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- \* Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Township reports the following major funds:

**General Fund** - The general fund is the general operating fund of the Township. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

**Governmental Fund** - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Revenue Recognition** - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if it is collected within 60 days of the end of the current fiscal period. Property taxes, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.



**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Expenditure Recognition** - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the Township:

**General Fund** - The general fund is the general operating fund of the Township. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

**Proprietary Funds** - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

The following is a description of the proprietary fund types of the Township:

**Fiduciary Funds (Not Included in Government-Wide Financial Statements)** - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Township programs.

**Agency Funds** - Agency funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Budgets and Budgetary Accounting** - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general fund. The Township adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- \* On or about March 31, the Township Board submits to the general public a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- \* Public hearings are conducted to obtain taxpayer comments.
- \* On or about April 1, the budget is legally enacted through passage of resolution.
- \* The Township Board is authorized to transfer budgeted amounts within departments.
- \* The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- \* Appropriations for the general fund lapse at the end of the fiscal year.
- \* Budgeted amounts are as originally adopted or as amended by the Board of Trustees.

**Deposits and Investments** - Statutes authorize the primary government and component units to invest in the following:

- \* In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- \* In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.

**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- \* In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- \* In United States government of federal agency obligation repurchase agreements.
- \* In banker's acceptances of United States banks.
- \* In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- \* In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

TOWNSHIP OF SHERMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Capital Assets and Depreciation** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Roads	40
Land improvements	15-30
Buildings and improvements	15-40
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

**Deferred Revenue** - In the fund financial statements, governmental funds report deferred revenue in connection with resources for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

**Long-Term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Property Taxes** - The Township's property taxes are levied as an enforceable lien on property as of December 1 and are due without penalty on or before February 14. These tax bills include the Township's own property taxes and a portion of the taxes billed on behalf of other governments and school districts within the Township's boundaries. Real property taxes not collected as of March 1 are turned over to St. Joseph County for collection. The County advances the Township 100% for delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Township's treasurer. The Township's property taxes levied on December 1 provide the revenue for the current fiscal year.

Taxes collected and remitted to other governments and school districts are accounted for in the Tax Collection Fund.

The assessed and state equalized taxable value of real and personal property located in the Township totaled \$89,018,344. The Township's general operating levy for the year was based on a millage rate of .5000.

**Fund Equity** - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWNSHIP OF SHERMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

The Township's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and cash equivalents	\$ 472,683
Statement of Fiduciary Net Assets:	
Cash	<u>1,097</u>
Total	<u>\$ 473,780</u>

**Cash** - Statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also members of a federal or national insurance corporation.

At March 31, 2005, the book balance was \$473,780 and the bank balance (without recognition of outstanding checks or deposits in transit) was \$485,516, of which \$159,294 was insured by federal depository insurance and \$-0- was uninsured and uncollateralized. The balance of \$326,222 was invested in bank municipal investment funds which are not categorized by risk.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution it deposits Township Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

TOWNSHIP OF SHERMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE 3 - RECEIVABLES

Receivables as of year end for the Township's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	<u>General</u>
State revenue sharing	\$ 34,298
Property taxes	3,639
Annexation agreements	2,920
Interest	1,097
Court judgements	<u>27,726</u>
Gross receivables	69,680
Less: allowance for uncollectibles	<u>27,726</u>
Net total receivables	<u>\$ 41,954</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year deferred revenue has been reported in the governmental funds in the amount of \$27,726 for the outstanding balance of court judgements.

TOWNSHIP OF SHERMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2005, was as follows:

	Balance April 1, 2004	Additions	Disposals	Balance March 31, 2005
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 500	\$ -	\$ -	\$ 500
Capital assets, being depreciated:				
Land improvements	-	1,380	-	1,380
Buildings and improvements	<u>187,050</u>	<u>24,445</u>	<u>-</u>	<u>211,495</u>
Subtotal	187,050	25,825	-	212,875
Accumulated depreciation				
Land improvements	-	-	-	-
Buildings and improvements	<u>1,000</u>	<u>2,630</u>	<u>-</u>	<u>3,630</u>
Subtotal	<u>1,000</u>	<u>2,630</u>	<u>-</u>	<u>3,630</u>
Net capital assets being depreciated	<u>186,050</u>			<u>209,245</u>
Net capital assets	<u>\$ 186,550</u>			<u>\$ 209,745</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental activities	
General government	<u>\$ 2,630</u>



**TOWNSHIP OF SHERMAN, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005**

**NOTE 5 - RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 6 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The annual budget is prepared by the Township management and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township were adopted on a function level basis.

During the year ended March 31, 2005, the Township incurred the following expenditures in excess of the amounts appropriated at the legal level of budgetary control.

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Community development	\$ 50,800	\$ 56,614	\$ 5,814
	Capital outlay	\$ -	\$ 25,825	\$ 25,825

REQUIRED SUPPLEMENTAL INFORMATION

**TOWNSHIP OF SHERMAN, MICHIGAN**

**REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED MARCH 31, 2005**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b>REVENUES</b>				
Taxes and penalties	\$ 43,000	\$ 44,000	\$ 47,963	\$ 3,963
State grants	215,000	220,000	224,698	4,698
Charges for services	-	10,000	10,133	133
Interest	4,000	4,000	6,470	2,470
Other	<u>-</u>	<u>2,000</u>	<u>2,251</u>	<u>251</u>
Total revenues	262,000	280,000	291,515	11,515
<b>EXPENDITURES</b>				
General government	131,400	160,400	148,734	11,666
Public safety	32,400	43,200	43,147	53
Public works	65,000	30,000	29,006	994
Community development	33,200	50,800	56,614	( 5,814)
Capital outlay	<u>-</u>	<u>-</u>	<u>25,825</u>	<u>( 25,825)</u>
Total expenditures	<u>262,000</u>	<u>284,400</u>	<u>303,326</u>	<u>( 18,926)</u>
Excess (deficiency) of revenues over expenditures	-	( 4,400)	( 11,811)	( 7,411)
FUND BALANCE - Beginning of year	<u>521,099</u>	<u>521,099</u>	<u>521,099</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 521,099</u>	<u>\$ 516,699</u>	<u>\$ 509,288</u>	<u>\$ ( 7,411)</u>

OTHER SUPPLEMENTAL INFORMATION

TOWNSHIP OF SHERMAN, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES - BUDGET AND ACTUAL  
YEAR ENDED MARCH 31, 2005

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable ( Unfavorable)
Taxes and Penalties			
Current property taxes		\$ 40,829	
Delinquent property taxes		3,623	
Interest and penalties on taxes		590	
Property tax administration fees		-	
Annexation agreements		<u>2,921</u>	
Total taxes and penalties	\$ 44,000	47,963	\$ 3,963
State Grants			
Revenue sharing		219,874	
Metro Act		<u>4,824</u>	
Total state grants	220,000	224,698	4,698
Charges for Services			
Zoning changes		4,000	
Summer tax collection		5,823	
Fire runs		<u>310</u>	
Total charges for services	10,000	10,133	133
Interest earned	4,000	6,470	2,470
Other			
Special assessments		2,001	
Other		<u>250</u>	
Total other	<u>2,000</u>	<u>2,251</u>	<u>251</u>
Total revenues	<u>\$ 280,000</u>	<u>\$ 291,515</u>	<u>\$ 11,515</u>

**TOWNSHIP OF SHERMAN, MICHIGAN**

**GENERAL FUND**

**SCHEDULE OF EXPENDITURES - BY ACTIVITY - BUDGET AND ACTUAL  
YEAR ENDED MARCH 31, 2005**

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable ( Unfavorable)
General Government			
Township Board	\$ 64,000	\$ 57,140	\$ 6,860
Supervisor	13,000	12,549	451
Treasurer	20,000	19,924	76
Assessor	21,400	20,948	452
Clerk	14,000	13,440	560
Elections	5,000	4,604	396
Building and grounds	6,000	4,309	1,691
Trash clean up program	6,000	5,743	257
Cemetery	1,000	900	100
County computer services	<u>10,000</u>	<u>9,177</u>	<u>823</u>
Total general government	160,400	148,734	11,666
Public Safety			
Fire protection services	43,200	43,147	53
Public Works			
Road maintenance	30,000	29,006	994
Community Development			
Planning commission	42,600	49,408	( 6,808)
Zoning Board	7,200	6,381	819
Enforcement	<u>1,000</u>	<u>825</u>	<u>175</u>
Total community development	50,800	56,614	( 5,814)
Capital outlay	<u>-</u>	<u>25,825</u>	<u>( 25,825)</u>
Total expenditures	<u>\$ 284,400</u>	<u>\$ 303,326</u>	<u>\$ ( 18,926)</u>